



[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 53

[TD 9740]

RIN 1545-BL23

Reliance Standards for Making Good Faith Determinations

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations regarding the standards for making a good faith determination that a foreign organization is a charitable organization that is not a private foundation, so that grants made to that foreign organization may be qualifying distributions and not taxable expenditures. The regulations also make additional changes to conform the final regulations to statutory amendments made by the Deficit Reduction Act of 1984 and the Pension Protection Act of 2006. The regulations will affect private foundations seeking to make good faith determinations.

DATES: Effective date: These regulations are effective on **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

Applicability date: For the dates of applicability, see §§53.4942(a)-3(f) and 53.4945-5(f)(3).

FOR FURTHER INFORMATION CONTACT: Ward L. Thomas, (202) 317-6173 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collection of information in these final regulations is the good faith determination set forth in §§53.4942(a)-3(a)(6) and 53.4945-5(a)(5). The collection of information contained in these regulations is reflected in the collection of information for Form 990-PF, "Return of Private Foundation or Section 4947(a)(1) Trust Treated as Private Foundation," that has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)), under control number 1545-0052. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control number assigned by the Office of Management and Budget. Books or records relating to a collection of information must be retained as long as their contents might become material in the administration of any internal revenue law.

Background

This document contains amendments to 26 CFR part 53 under chapter 42, subtitle D of the Internal Revenue Code (Code). To avoid certain excise taxes under chapter 42, a private foundation (referred to in this preamble as a "foundation" or "grantor")¹ must make a minimum level of "qualifying distributions" (as defined in section

¹ The regulations under section 4942 refer to "distributing foundations" making distributions to "donee organizations," whereas the regulations under section 4945 refer to "grantor foundations" making or paying grants to "grantee organizations." For

4942 of the Code) each year and must avoid making taxable expenditures (as defined in section 4945). A foundation generally may treat grants made for charitable purposes to certain foreign organizations as qualifying distributions under section 4942 if the foundation makes a good faith determination that the foreign organization is an organization described in sections 501(c)(3) and 509(a)(1), (a)(2), or (a)(3) (a “public charity”) that is not a “disqualified supporting organization” described in section 4942(g)(4)(A)(i) or (ii), or is an organization described in sections 501(c)(3) and 4942(j)(3) (an “operating foundation,” also known as a “private operating foundation”). Similarly, foundations may treat grants for charitable purposes to certain foreign organizations as other than taxable expenditures under section 4945 without having to exercise expenditure responsibility if the foundation makes a good faith determination that the foreign organization is a public charity (other than a disqualified supporting organization) or is an operating foundation described in section 4940(d)(2) (an “exempt operating foundation”). In this preamble, a foreign grantee that is a public charity or operating foundation that may receive a qualifying distribution (or a grant for which expenditure responsibility is not required) is referred to as a “qualifying public charity.”² This good faith determination is commonly known as an “equivalency determination.”

simplicity, this preamble refers to grantors making grants or distributions to grantee organizations, in reference to both Code sections.

² The class of qualifying public charities for purposes of section 4945 is a slightly smaller subset of those for purposes of section 4942. Thus, grants to foreign organizations determined to be operating foundations that are not exempt operating foundations, and grants by operating foundations to foreign organizations determined to be disqualified supporting organizations, may be qualifying distributions under section 4942 but the grantor must nevertheless exercise expenditure responsibility to avoid excise taxes under section 4945 on such grants.

Longstanding regulations under both sections 4942 and 4945 provide that a foundation will ordinarily be considered to have made a “good faith determination” if the determination is based on an affidavit of the grantee or on an opinion of counsel of either the grantor or the grantee. The affidavit or opinion must set forth sufficient facts concerning the operations and support of the grantee for the IRS to determine that the grantee would be likely to qualify as a public charity or an operating foundation. See §§53.4942(a)-3(a)(6) and 53.4945-5(a)(5). In this preamble, we refer to this rule, which gives assurance to foundations meeting the rule that their grants to foreign organizations will ordinarily be considered to be qualifying distributions and not taxable expenditures, as the “special rule.”

Revenue Procedure 92-94, 1992-2 CB 507, provides further guidance by providing a “simplified procedure” that foundations may follow, both for making "good faith determinations" under §§53.4942(a)-3(a)(6) and 53.4945-5(a)(5), and for making similar "reasonable judgments" under §53.4945-6(c)(2)(ii) that a foreign organization is described in section 501(c)(3) (or in section 4947(a)(1), and thus treated under section 4947(a)(1) as described in section 501(c)(3) for purposes of chapter 42 of the Code). Under the revenue procedure, if the grantor’s determination that a foreign organization is described in section 501(c)(3) or section 4947(a)(1) of the Code and is either a public charity or an operating foundation is based on a "currently qualified" affidavit prepared by the grantee containing the information specified in the revenue procedure, then the foundation will be deemed to have made a good faith determination (for purposes of §§53.4942(a)-3(a)(6) and 53.4945-5(a)(5)) and a reasonable judgment (for purposes of §53.4945-6(c)(2)(ii)). If a foundation possesses information that suggests the affidavit

may not be reliable, it must consider that information in determining whether the affidavit is currently qualified.

Revenue Procedure 92-94 provides that an affidavit will be considered currently qualified if: (1) the facts it contains reflect the grantee organization's latest complete accounting year (or the affidavit is updated to reflect the grantee organization's current data) and (2) the relevant substantive requirements of sections 501(c)(3) and 4947(a)(1) and sections 509(a)(1), (2), or (3) or section 4942(j)(3) remain unchanged. If a grantee's status under the relevant Code sections does not depend on financial support, which can change from year to year, an affidavit need be updated only by asking the grantee to amend the description of any facts in the original affidavit that have changed. If the facts have not changed, an attested statement by the grantee to that effect is enough to update an affidavit. However, if a grantee's status as a public charity or operating foundation depends on financial support, the affidavit must be updated at least every other year by asking the grantee to provide an attested statement containing enough financial data to establish that it continues to meet the requirements of the applicable Code section.

On September 24, 2012, the Department of the Treasury (Treasury Department) and the IRS published a notice of proposed rulemaking (REG-134974-12) in the **Federal Register** (77 FR 58796) that contained proposed regulations regarding the standards for making a good faith determination that a foreign organization is a qualifying public charity, so that grants made to the foreign organization may be qualifying distributions and not taxable expenditures. The proposed regulations would have modified the special rule in §§53.4942(a)-3(a)(6) and 53.4945-5(a)(5) by generally

expanding the class of advisors upon whose advice foundations may ordinarily rely in making good faith determinations beyond the attorneys for the grantor and grantee to “qualified tax practitioners” (including attorneys, CPAs, and enrolled agents subject to the requirements of Circular 230). In addition, the proposed regulations would have clarified that a determination based on written advice is ordinarily considered made in good faith if the foundation’s reliance on the written advice meets the requirements of §1.6664-4(c)(1), which are the standards for reasonable reliance in good faith on professional tax advice for penalty relief purposes. The proposed regulations also would have updated the regulations to reflect legislative changes regarding qualifying public charities.

The proposed revisions to the regulations were intended to facilitate grantmaking by foundations to foreign organizations by making it easier and less costly for foundations to obtain written advice from qualified tax practitioners to assure that a grant will ordinarily be considered a qualifying distribution (and not a taxable expenditure). The preamble to the proposed regulations explained that expanding the class of practitioners on whose written advice a foundation may base a good faith determination was expected to decrease the cost of seeking professional advice regarding these determinations, enabling foundations to engage in international philanthropy in a more cost-effective manner. At the same time, expressly allowing reliance for purposes of the special rule on a broader spectrum of professional tax advisors was expected to encourage more foundations to obtain written tax advice, thus promoting the quality of the determinations being made. To facilitate this, foundations

were permitted to rely on the provisions of the proposed regulations for grants made on or after September 24, 2012.

The preamble to the proposed regulations specifically requested comments on three issues. First, comments were requested on whether a time limit for reliance on an affidavit or written advice would be appropriate, and if so, the proper length of such a time limit. Second, comments were sought on whether Rev. Proc. 92-94 should be modified to take into account changes to the public support test regulations for public charity qualification that were finalized in 2011 (TD 9549; 76 FR 55745). Third, although the proposed regulations did not change the ability of foundations to rely on grantee affidavits for purposes of the special rule, the Treasury Department and the IRS notified the public that they were considering whether it would be appropriate to remove reliance on affidavits for purposes of the special rule, or to restrict it (for example, by permitting use of affidavits only for grants below a certain dollar amount or by requiring supporting information), and requested comments.

No public hearing was requested or held; however, 11 comments from the public were received. All comments are available at www.regulations.gov or upon request. After consideration of the comments, the proposed regulations are adopted as amended by this Treasury decision.

Summary of Comments and Explanation of Provisions

Commenters were generally supportive of the proposed regulations, with several expressing their hope or expectation that the proposed regulations would reduce barriers to, and streamline the process of, international grantmaking. Commenters noted that expanding the class of professionals upon whose written advice a foundation

may base its good faith determination would reduce the costs of making equivalency determinations by enabling the sector to take advantage of economies of scale to increase the quality and efficiency of good faith determinations regarding foreign grantees. The majority of comments focused primarily on the three issues for which comments specifically were requested: (1) the circumstances under which it would be appropriate for foundations to rely on grantee affidavits in making equivalency determinations, (2) the permitted reliance period for an affidavit or advisor's written advice, and (3) modification of Rev. Proc. 92-94.

The final regulations balance two important considerations: (1) removing barriers to international grantmaking by foundations (as well as by entities treated like foundations for these purposes) and (2) ensuring that foundations' good faith determinations are informed by a sufficient understanding of the applicable law, are based on all relevant factual information, and are likely to be correct. The Treasury Department and IRS take note that, according to publicly available data, foundations (acting in reliance on the proposed regulations, as permitted) now may obtain written advice of a qualified tax practitioner for purposes of making a good faith determination at a substantially lower cost than was previously available, in part due to economies of scale experienced by organizations employing qualified tax practitioners specializing in providing written advice to several grantors.

The major areas of comment and the revisions are discussed in this preamble.

Expanded Class of Advisors

In accordance with the proposed regulations and public comments, the final regulations modify the special rule to expand the class of advisors providing written

advice on which foundations may ordinarily rely to qualified tax practitioners, including CPAs and enrolled agents (as well as attorneys) who are subject to the standards of practice before the IRS set out in Circular 230. A qualified tax practitioner may include an attorney serving as a foundation's in-house counsel, as well as a foundation's outside counsel. Because Circular 230 requires that, to practice before the IRS, an attorney or CPA must be licensed in a state, territory, or possession of the U.S., and an enrolled agent must be enrolled by the IRS, the final regulations effectively require that the advisor be authorized to practice in a state, territory, or possession of the U.S. or as an enrolled agent. In addition, like the proposed regulations, the final regulations provide that a determination based on the written advice of a qualified tax practitioner ordinarily will be considered as made in good faith if the foundation's reliance meets the requirements of §1.6664-4(c)(1). As noted in the preamble to the proposed regulations, §1.6664-4(c)(1) provides that all pertinent facts and circumstances must be taken into account in determining whether a taxpayer has reasonably relied in good faith on written advice, but a foundation's reliance on written advice is not reasonable and in good faith if the foundation knows, or reasonably should have known, that a qualified tax practitioner lacks knowledge of the relevant aspects of U.S. tax law (which, in this context, would include the U.S. tax law of charities). Moreover, a foundation may not rely on written advice if it knows, or has reason to know, that relevant facts were not disclosed to the qualified tax practitioner or that the written advice is based on a representation or assumption that the foundation knows, or has reason to know, is unlikely to be true.

Reliance on opinion of foreign counsel

One commenter suggested that the final regulations clarify that foundations and qualified tax practitioners may obtain advice from foreign counsel on questions of foreign law when making good faith determinations. The final regulations, consistent with the proposed regulations, provide that, for purposes of the special rule, if a foundation's determination is based on the written advice of a qualified tax practitioner, the foundation will ordinarily be considered to have made a good faith determination. The Treasury Department and the IRS are concerned that, standing alone, an opinion of foreign counsel, who may or may not have expertise in U.S. tax law, may not ordinarily be a sufficient basis for a determination of a foreign organization's status. Thus, under the final regulations, foundations basing their determination on an opinion of counsel of the grantor or grantee will no longer come within the special rule unless the counsel is a qualified tax practitioner. However, neither the proposed regulations nor the final regulations proscribe the use of foreign counsel in otherwise seeking to make a good faith determination, including use of foreign counsel in gathering information relevant to the determination. The standards of practice before the IRS and requirements for written advice address reliance by qualified tax practitioners on foreign counsel for questions of foreign law. Sections 10.22(b), 10.35(a), and 10.37(b) of Circular 230 generally permit a practitioner to consult with and rely on other experts in appropriate circumstances. It follows, therefore, that a foundation may reasonably rely on written advice received from a qualified tax practitioner in accordance with §1.6664-4(c)(1) that in turn reasonably relies on advice or assistance from foreign counsel as to questions of foreign law or other matters within such counsel's expertise.

Reliance on grantee affidavits

The preamble to the proposed regulations requested comments on whether a foundation's ability to base a good faith determination on an affidavit should be removed, and if not, whether the use of such affidavits should be restricted. In the preamble, the Treasury Department and the IRS expressed their concern that, for purposes of the special rule, grantee affidavits, standing alone, are not always as reliable a basis for making good faith determinations as written advice from qualified tax practitioners and asked for comments. Several comments were received in response to this request.

Most commenters that addressed the issue recommended that foundations continue to be permitted to base a good faith determination on an affidavit of a foreign organization attested to by a principal officer of the foreign organization. These commenters noted that grantee affidavits are often a reliable means of collecting facts about the organization and operations of the foreign grantee, even if, as one commenter noted, on matters of U.S. tax law a grantmaker cannot ordinarily rely on a foreign organization's conclusion that the grantee has a particular tax status. Several commenters noted that the current procedures outlined in Rev. Proc. 92-94 require that affidavits include significant detail and specific accompanying information, which, in their experience, ensures that a foundation has a clear picture of the organization and operation of the foreign organization before making a determination based on the affidavit. However, these commenters also noted that, in their experience, it was often necessary for someone at the foundation (presumably with knowledge of U.S. tax law) to work closely with a foreign organization to ensure that the principal officer attesting to

the affidavit understands exactly what is called for and that the affidavit is appropriately completed.

Many commenters stated that foundations should not be required to obtain professional tax advice and requested assurance that a foundation could continue to make good faith determinations without having to engage counsel or another qualified tax practitioner, especially if the foundation or the grant is small. One commenter noted that engaging a qualified tax practitioner may impose substantial costs on a foundation, particularly if the foundation makes repeated grants to the same organization. Another commenter stated that it would be excessive for the regulations to suggest that a grantmaker must ordinarily use professional advisors in order for a determination to be in good faith, but noted that if a grantmaker goes without professional advice, it is fair for the IRS to review its conclusions and its process for reaching those conclusions to see if the grantmaker has complied with the good faith determination standard in the regulations.

One commenter favored eliminating the grantee affidavit as a free-standing means for making equivalency determinations. In the commenter's experience, the staff and volunteers of most, but not all, foreign grantees have neither the training nor the experience with U.S. tax law needed to make determinations called for by Rev. Proc. 92-94. Therefore, the commenter believed it is important to eliminate reliance on the grantee affidavit.

The Treasury Department and the IRS agree that a grantee affidavit may be a reliable basis for forming a good faith determination in appropriate situations, for example, if the grantee has sufficient knowledge of U.S. tax law to ensure that the

affidavit is appropriately completed and contains all relevant information. However, many foreign organizations may lack knowledge of U.S. tax law of charities, as noted by one commenter. In addition, although some foundations have knowledge of U.S. tax law sufficient to assess the reliability of grantee affidavits, to assist foreign grantees in completing the affidavits properly (if necessary), and to appropriately apply the law to the facts stated in the affidavit, the Treasury Department and IRS do not believe that such knowledge of U.S. tax law is universal. Accordingly, the Treasury Department and IRS do not think it is appropriate to ordinarily consider a good faith determination to have been made solely because it is based on a grantee affidavit. Therefore, under the final regulations, a grantee affidavit is not included in the special rule as a basis upon which a determination ordinarily will be considered a good faith determination.

The final regulations do not, however, foreclose the use of grantee affidavits as a source of information in otherwise making a good faith determination. Nor does elimination of the affidavit for purposes of the special rule mean that the foundation must obtain written advice from a qualified tax practitioner in order to make a good faith determination. For example, a foundation manager with understanding of U.S. charity tax law may under the general rule make a good faith determination that a foreign grantee is a qualifying public charity based on the information in an affidavit supplied by the grantee. Furthermore, foundation managers or their in-house counsel may themselves be qualified tax practitioners, whose written advice may be reasonably relied upon for determinations to come within the special rule.

One commenter suggested that to ensure that affidavits of foreign organizations provide a reliable basis for making a good faith determination, the IRS should further

clarify what supporting documentation must be provided by a foreign organization and when private foundations may in good faith rely on the responses of foreign organizations. This commenter recommended that the IRS amplify Rev. Proc. 92-94 to state explicitly when the response of the foreign organization is sufficient and when additional supporting documentation (for example, a copy of the relevant law) should be requested from the organization. The Treasury Department and the IRS have concluded, however, that due to the many possible factual differences in foreign organizations' structures, governance, operations, financial support, and relevant local laws and practices, it would be difficult to provide specific guidance governing affidavits and supporting documentation in various situations.

Some commenters raised concerns that removing reliance on grantee affidavits for purposes of the special rule would increase costs for foundations and inhibit international grantmaking, particularly for those grantors making many small grants to foreign organizations. However, commenters generally agreed with the Treasury Department and IRS that the changes proposed in the regulations could lower the cost of obtaining professional advice on equivalency determinations by expanding the class of advisors who may provide written advice to foundation managers. Indeed, based on publicly available information, it appears that foundations relying on the proposed rules (as permitted) are now able to obtain professional advice from qualified tax practitioners to come within the special rule at a significantly reduced cost. Furthermore, under the final regulations, grantee affidavits remain a cost-effective way of obtaining information relevant to making good faith determinations and foundations may continue to rely on them when making determinations to the extent reliance is reasonable and appropriate

under the facts and circumstances. Accordingly, the Treasury Department and IRS believe that the final regulations achieve the balance of facilitating international grantmaking while still ensuring that equivalency determinations are appropriately made.

To mitigate the effects of elimination of reliance on grantee affidavits for purposes of the special rule, the final regulations provide a 90-day transition period similar to that set forth in §53.4945-5(f)(2) (dealing with the implementation of the expenditure responsibility rules). During this 90-day period, foundations may distribute grants in accordance with the former regulations regarding the use of grantee affidavits and opinions of counsel of the grantor or grantee. In addition, under the final regulations, if a grant is distributed pursuant to a written commitment made prior to the applicability date of the final regulations and the grantor made a determination in good faith based on the prior regulations, the distribution is treated as compliant as long as the grant is paid out to the grantee within five years.

Period for reliance on written advice

The preamble to the proposed regulations requested comments on whether a time limit for reliance on written advice is appropriate, and if so, suggestions for the length of time that should be considered reasonable. Most commenters responded affirmatively to this request and favored guidance setting forth a definite period for reliance on written advice, with most suggesting a period of generally two years (starting from the date of the written advice or the time of the factual information on which the written advice is based).

More specifically, commenters recommended that foundations be able to rely on written advice that a foreign organization meets a public support test under §1.170A-9(f)(4)(vii)(B) or §1.509(a)-3(c)(1)(i) for periods similar to those in the rules applicable to publicly supported organizations that have been recognized by the IRS as exempt under section 501(c)(3) and described in section 170(b)(1)(A)(vi) or 509(a)(2).³ For example, one commenter noted that for section 170(b)(1)(A)(vi) and section 509(a)(2) organizations, if an organization meets the public support test for a five-year test period, then for most purposes, including for purposes of sections 4942 and 4945, the organization is treated as publicly supported for the two tax years immediately following the end of the five-year support test period. See §1.170A-9(f)(4)(vii)(B) and §1.509(a)-3(c)(1)(i). Thus, if an organization meets a public support test for a five-year test period ending in 2014, the organization is also considered publicly supported in 2015 and (for most purposes) 2016.

Commenters also noted that Rev. Proc. 92-94, section 4.05, provides a general two-year period for reliance on an affidavit with regard to a foreign grantee's public support status, such that it is ordinarily necessary to obtain a full update of financial information to determine public support under sections 170(b)(1)(A)(vi) and 509(a)(2) only every other year. Citing these provisions, some commenters requested that the final regulations permit reliance for two tax years after the end of the foreign organization's last tax year of financial information used to determine the organization's public support. Thus, for example, commenters suggested that a 2012 equivalency

³ These rules provide that a publicly supported organization that fails to meet the applicable public support test for two consecutive years will be treated as a private foundation as of the first day of the second consecutive taxable year only for purposes of sections 507, 4940, and 6033.

determination based on financial information from 2007-2011 should be sufficient to demonstrate that the organization would be considered a public charity for both 2012 and 2013, resulting in a period of reliance of up to two years, depending on when in 2012 the determination was made. One commenter suggested that reliance should extend only until the 15th day of the fifth month after the end of the first year following the test period – in the example above, until May 15, 2013 – and that a qualified tax practitioner should have to review the foreign grantee's sources of financial support for 2012 before issuing advice that the organization can be treated as publicly supported for the remainder of 2013.

For other qualifying public charities, which do not have a public support requirement, such as schools or hospitals, one commenter requested a reliance period of five years, with a requirement to get a certificate after three years that the relevant law and facts have not changed in any material respect. Another commenter suggested that a foundation be able to rely on advice if the information (other than that for the public support requirement) is current in the present or immediately preceding accounting period of the grantee.

The Treasury Department and the IRS agree with commenters that providing a specific timeframe for reliance on written advice for purposes of the special rule will provide clarity for foundations seeking to meet the requirements of the rule and will promote determinations that are consistently based on current information. Therefore, the final regulations provide that, for purposes of the special rule, written advice of a qualified tax practitioner serving as the basis for a good faith determination must be "current." Written advice will be considered current if, as of the date of the distribution,

the relevant law on which the advice was based has not changed since the date of the written advice and the factual information on which the advice was based is from the organization's current or prior year. However, consistent with rules for determinations of public support over a five-year test period for U.S. public charities, written advice that an organization satisfied the public support requirements under section 170(b)(1)(A)(vi) or section 509(a)(2) based on support over a test period of five years will be treated as current for the two years of the grantee immediately following the end of the five-year test period. For purposes of these rules, an organization's year refers to its taxable year for U.S. tax purposes, or its annual accounting period if it does not have a U.S. taxable year. Additional guidance and examples illustrating the application of these rules may be provided in the update to Rev. Proc. 92-94, discussed further in the next section of this preamble.

It should be noted that the rules regarding when written advice will be considered current apply only for purposes of the special rule. Although this standard reflects a belief that it will usually be reasonable to rely on written advice of a qualified tax practitioner if the advice and underlying facts are no more than two years old (provided the foundation does not know or have reason to know that such information is no longer accurate), it is possible that written advice that is not current for purposes of the special rule may, under some facts and circumstances, reasonably serve as the basis for a good faith determination under the general rule. The age of the facts underlying the written advice would be a consideration in determining whether a good faith determination has been made.

Qualified tax practitioners must, of course, satisfy all requirements for written advice under Circular 230 as of the date of issuance of the written advice (including requirements regarding the factual basis for the advice). The rules regarding when written advice will be considered current for purposes of making distributions to grantees do not alter the Circular 230 standards applicable to qualified tax practitioners, which provide that the practitioner must base the written advice on reasonable factual assumptions and reasonably consider all relevant facts and circumstances that the practitioner knows or reasonably should know. To avoid any implication that the reliance period under the special rule would permit written advice to be based on outdated factual information, the final regulation has been revised to clarify that the written advice must contain sufficient facts to permit the IRS to determine that the grantee would be likely to qualify as a public charity at the time the advice is written.

Update of Rev. Proc. 92-94

The preamble to the proposed regulations also requested comments on whether Rev. Proc. 92-94 should be modified to take into account changes in the public support test and whether additional guidelines regarding appropriate timeframes for gathering information should be provided. Most commenters recommended updating Rev. Proc. 92-94 and noted that it is frequently used by qualified tax practitioners for gathering factual information on which to base their written advice. Commenters also recommended that an updated revenue procedure address several key issues relating to foreign organizations, including foreign school compliance with Rev. Proc. 75-50, 1975-2 CB 587, the nature of support from foreign governments, and foreign hospital compliance with section 501(r) (subsequently addressed at §1.501(r)-1(b)(17)).

The IRS intends to publish an updated revenue procedure, revised to reflect the changes implemented in these regulations as well as changes to the public support tests for section 170(b)(1)(A)(vi) and 509(a)(2) organizations set forth in final regulations implementing the redesign of Form 990, published in the **Federal Register** (TD 9549; 76 FR 55746) on September 8, 2011. The Treasury Department and the IRS will consider the issues raised by commenters in developing the updated revenue procedure.

Reliance on written advice shared by another foundation

One commenter asked for confirmation that a foundation could share the written advice of its in-house counsel or other qualified tax practitioner with other foundations, and that the other foundations could make their determinations based on the shared advice, without incurring excise taxes.

Written advice relating to the grantee's status for purposes of an equivalency determination is based on the facts and circumstances of the grantee, and not on the facts and circumstances of the grantor foundation that received the advice. Therefore, it is possible that the conclusions reached in the written advice one foundation received from a qualified tax practitioner could reasonably be used by another foundation to make a good faith determination about the same grantee. This may be the case, for example, if the foundation with whom the written advice is shared knows the qualified tax practitioner well and is familiar with the due diligence practices of the foundation that provided the facts to the qualified tax practitioner and received the written advice. However, when written advice obtained by one foundation is later shared with a second foundation (or shared even further with other foundations), the foundation seeking to

base its good faith determination on the written advice may have no knowledge of the qualified tax practitioner that gave the advice or whether all material facts were disclosed to the practitioner. Although reliance on shared advice of a trusted tax practitioner that is based on all the material facts may be economical, and in some cases may be reasonable and appropriate, the Treasury Department and the IRS are concerned that, in other cases, the foundation receiving the advice may not be in a position to appropriately evaluate the reliability of the written advice that was shared. Thus, the final regulations do not prohibit a foundation from using written advice shared with it by another foundation in making a good faith determination if it is reasonable to do so under all the facts and circumstances (including the age of the facts supporting the written advice). However, the final regulations clarify that for a foundation seeking the benefit of the special rule, the written advice a foundation relies on in making its determination must be received from the qualified tax practitioner (rather than from another foundation).

Equivalency determinations by sponsoring organizations of donor advised funds

Commenters suggested that the Treasury Department and the IRS clarify that sponsoring organizations of donor advised funds can use these final regulations to make equivalency determinations for purposes of distributions from donor advised funds to foreign organizations. Until further guidance is issued, sponsoring organizations of donor advised funds may use these regulations as guidance in making equivalency

determinations (applying the definition of “disqualified supporting organization” under section 4966(d)(4) in lieu of section 4942(g)(4)(A)(i) or (ii)).⁴

Reliance by public charities

One commenter proposed that the final regulations also allow public charities to make equivalency determinations to avoid the requirements imposed on them by Rev. Rul. 68-489, 1968-2 CB 210, for grants to organizations not exempt under section 501(c)(3). That ruling permits a section 501(c)(3) organization to distribute funds to organizations not exempt under section 501(c)(3) if the grantor organization ensures use of the funds for section 501(c)(3) purposes by limiting distributions to specific projects in furtherance of its own exempt purposes, retains control and discretion as to the use of the funds, and maintains records establishing that the funds were used for section 501(c)(3) purposes. The commenter’s proposal is outside the scope of this regulations project, but it may be considered in future guidance.

Equivalency determinations for domestic grantees and foreign government grantees

⁴ This is consistent with the Joint Committee on Taxation, Technical Explanation of H.R. 4, the “Pension Protection Act of 2006” (JCX-38-06, Aug. 3, 2006) at p. 349, which provides:

For purposes of the requirement that a distribution be “to” an organization described in section 170(b)(1)(A), in general, it is intended that rules similar to the rules of Treasury regulation §53.4945-5(a)(5) apply. Under such regulations, for purposes of determining whether a grant by a private foundation is “to” an organization described in section 509(a)(1), (2), or (3) and so not a taxable expenditure under section 4945, a foreign organization that otherwise is not a section 509(a)(1), (2), or (3) organization is considered as such if the private foundation makes a good faith determination that the grantee is such an organization. Similarly, under the provision, if a sponsoring organization makes a good faith determination (under standards similar to those currently applicable for private foundations) that a distributee organization is an organization described in section 170(b)(1)(A) (other than a disqualified supporting organization), then a distribution to such organization is not considered a taxable distribution.

One commenter requested that the equivalency determination procedures be made expressly applicable to grantees in the U.S. as well as foreign grantees if the domestic grantee is not required to obtain a determination from the IRS or the determination is pending with the IRS. Another commenter requested clarification that a foundation could use the same procedures to determine the status of grantees that are foreign governments, agencies or instrumentalities of foreign governments, or international organizations (which are treated as section 509(a)(1) organizations under §53.4945-5(a)(4)(iii), even if they are not described in section 501(c)(3), so long as the grant is made exclusively for charitable purposes). Both of these suggestions are beyond the scope of this regulations project but may be considered in future guidance.

Parallel changes to similar regulations

Commenters suggested that the Treasury Department and the IRS make corresponding changes to other regulations that provide for determinations similar to equivalency determinations. Section 53.4945-6(c)(2) requires generally that a grant made to an organization not described in section 501(c)(3) be maintained in a separate charitable fund, unless made to a foreign organization that in the reasonable judgment of a foundation manager is described in section 501(c)(3) (other than section 509(a)(4)). Section 1.1441-9 sets forth exemptions from withholding of tax on exempt income of foreign tax-exempt organizations, and allows a withholding agent to accept an opinion from a U.S. counsel concluding that a foreign organization is described in section 501(c)(3) and is not a private foundation, supported by an affidavit of the organization. For more than 20 years, under Rev. Proc. 92-94, a foundation has been able to make the reasonable judgment required by §53.4945-6(c)(2) by following the same procedure

for making a good faith determination under §§53.4942(a)-3(a)(6) and 53.4945-5(a)(5). The Treasury Department and the IRS anticipate that any revised version of that revenue procedure will continue to provide that foundations may meet the requirements of §53.4945-6(c)(2) by meeting the requirements of §§ 53.4942(a)-3(a)(6) and 53.4945-5(a)(5). The suggested changes to §1.1441-9 are beyond the scope of this regulations project, but may be considered in future guidance.

Amendments to regulations conforming to statutory and regulatory changes

The final regulations also include several amendments to conform the regulations to prior statutory changes. Specifically, changes were made to §§53.4942(a)-3(a)(2)(i), 53.4942(a)-3(a)(6)(i), 53.4945-5(a)(1), 53.4945-5(a)(5)(i), 53.4945-5(a)(6)(ii), and 53.4945-5(b)(5). Section 4945(d)(4) was amended in 1984 to treat exempt operating foundations under section 4940(d)(2) as organizations that may receive grants for which expenditure responsibility is not required. Sections 4942 and 4945(d)(4) were amended in 2006 to eliminate certain section 509(a)(3) supporting organizations from the class of organizations that may receive distributions treated as qualifying distributions and that may receive grants for which expenditure responsibility is not required. Changes to conform the regulations to these statutory changes were made in §§53.4942(a)-3(a)(6)(i) and 53.4945-5(a)(5)(i) of the proposed regulations, and the changes to the other parts of §§53.4942(a)-3 and 53.4945-5 are being made in the final regulations for consistency. Similarly, for purposes of consistency with the changes in the proposed regulations being implemented in these final regulations, §53.4945-5(b)(5) is being updated to allow written advice from a qualified tax practitioner for purposes of this

provision, as well as grantee affidavits and opinions of counsel of the grantee, which continue to be permitted for the purposes of §53.4945-5(b)(5).

Effective/Applicability Date and Transition Relief

The final regulations apply generally to distributions made after the date of publication of this Treasury decision in the **Federal Register**. However, a good faith determination may continue to be made in accordance with the prior regulations for any distribution to a foreign organization within 90 days after such date. Also, a foundation that has made a written commitment on or before the date of publication of these final regulations in the **Federal Register** may make distributions to the foreign organization, in fulfillment of that commitment and pursuant to a determination made in good faith in accordance with the prior regulations, for up to five years from the date of publication.

Availability of IRS Documents

For copies of recently issued revenue procedures, revenue rulings, notices and other guidance published in the Internal Revenue Bulletin, please visit the IRS Web site at <http://www.irs.gov> or contact the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.

Special Analyses

Certain IRS regulations, including these, are exempt from the requirements of Executive Order 12866, as supplemented and reaffirmed by Executive Order 13563. Therefore, a regulatory impact assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations.

It is hereby certified that the collection of information in these regulations will not have a significant economic impact on a substantial number of small entities. The collection of information is in §§53.4942(a)-3(a)(6) and 53.4945-5(a)(5) and is part of the collection of information for Form 990-PF. The equivalency determination process set forth in these regulations provides foundations with an optional procedure for determining that foreign organizations are qualifying public charities. The Treasury Department and the IRS believe that the economic impact of the proposed regulations on grantors making equivalency determinations has already been a reduction in cost of obtaining written tax advice, by expanding the class of practitioners whose written advice may form the basis of good faith determinations. The final regulations finalize this policy. The final regulations continue to permit grantee affidavits to be used in making good faith determinations under the general rule (although without the same level of reliance as under the special rule) and it is expected that affidavits will continue to be used for such purpose with small grants. Therefore, a Regulatory Flexibility Analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f) of the Internal Revenue Code, the notice of proposed rulemaking preceding these regulations was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small businesses, and no comment was received.

Drafting Information

The principal author of these regulations is Ward L. Thomas of the Office of Associate Chief Counsel (Tax-Exempt and Government Entities). However, other personnel from the Treasury Department and the IRS participated in their development.

List of Subjects in 26 CFR Part 53

Excise taxes, Foundations.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 53 is amended as follows:

PART 53 – FOUNDATION AND SIMILAR EXCISE TAXES

Paragraph 1. The authority citation for part 53 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 53.4942 (a)-3 is amended by:

1. Revising paragraphs (a)(2) introductory text, (a)(2)(i), and (a)(6).
2. Adding paragraph (f).

The revisions and addition read as follows:

§53.4942(a)-3 Qualifying distributions defined.

(a) * * *

(2) Definition. The term “qualifying distribution” means:

(i) Any amount (including program related investments, as defined in section 4944(c), and reasonable and necessary administrative expenses) paid to accomplish one or more purposes described in section 170(c)(1) or (2)(B), other than any contribution to:

(a) A private foundation which is not an operating foundation (as defined in section 4942(j)(3)), except as provided in paragraph (c) of this section;

(b) An organization controlled (directly or indirectly) by the contributing private foundation or one or more disqualified persons with respect to such foundation, except as provided in paragraph (c) of this section; or

(c) An organization described in section 4942(g)(4)(A)(i) or (ii), if paid by a private foundation that is not an operating foundation;

* * * * *

(6) Certain foreign organizations--(i) In general. A distribution for purposes described in section 170(c)(2)(B) to a foreign organization, which has not received a ruling or determination letter that it is an organization described in section 509(a)(1), (a)(2), or (a)(3) or in section 4942 (j)(3), will be treated as a distribution made to an organization described in section 509(a)(1), (a)(2), or (a)(3) (other than an organization described in section 4942(g)(4)(A)(i) or (ii)) or in section 4942(j)(3) if the distributing foundation has made a good faith determination that the donee organization is an organization described in section 509(a)(1), (a)(2), or (a)(3) (other than an organization described in section 4942(g)(4)(A)(i) or (ii)) or in section 4942(j)(3). A determination ordinarily will be considered a good faith determination if the determination is based on current written advice received from a qualified tax practitioner concluding that the donee is an organization described in section 509(a)(1), (a)(2), or (a)(3) (other than an organization described in section 4942(g)(4)(A)(i) or (ii)) or in section 4942(j)(3), and if the foundation reasonably relied in good faith on the written advice in accordance with the requirements of §1.6664-4(c)(1) of this chapter. The written advice must set forth sufficient facts concerning the operations and support of the donee organization for the Internal Revenue Service to determine that the donee organization would be likely to

qualify as an organization described in section 509(a)(1), (a)(2), or (a)(3) (other than an organization described in section 4942(g)(4)(A)(i) or (ii)) or in section 4942(j)(3) as of the date of the written advice. For purposes of this section, except as provided in the next sentence, written advice will be considered current if, as of the date of distribution, the relevant law on which the advice is based has not changed since the date of the written advice and the factual information on which the advice is based is from the donee's current or prior taxable year (or annual accounting period if the donee does not have a taxable year for United States federal tax purposes). Written advice that a donee met the public support test under section 170(b)(1)(A)(vi) or section 509(a)(2) for a test period of five years will be treated as current for purposes of distributions to the donee during the two taxable years (or, as applicable, annual accounting periods) of the donee immediately following the end of the five-year test period.

(ii) Definitions. For purposes of this paragraph (a)(6)--

(a) The term "foreign organization" means any organization that is not described in section 170(c)(2)(A).

(b) The term "qualified tax practitioner" means an attorney, a certified public accountant, or an enrolled agent, within the meaning of 31 CFR 10.2 and 10.3, who is subject to the requirements in 31 CFR part 10.

* * * * *

(f) Effective/applicability date and transition relief. Paragraphs (a)(2)(i) and (a)(6) of this section are effective on and apply with respect to distributions made after **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]**. However, foundations may continue to rely on the provisions of paragraph (a)(6) of this section as

contained in 26 CFR part 53, revised April 1, 2015, with respect to distributions made on or before **[INSERT DATE 90 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]** pursuant to a good faith determination made in accordance with such provisions. Also, foundations may continue to rely on the provisions of paragraph (a)(6) of this section as contained in 26 CFR part 53, revised April 1, 2015, with respect to distributions pursuant to a written commitment made on or before **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]** and pursuant to a good faith determination made on or before such date in accordance with such provisions if the committed amount is distributed within five years of such date.

Par. 3. Section 53.4945-5 is amended by:

1. Revising paragraphs (a)(1), (a)(5), (a)(6)(ii), and (b)(5).
2. Adding paragraph (f)(3).

The revisions and addition read as follows:

§53.4945-5 Grants to organizations.

(a) Grants to nonpublic organizations--(1) In general. Under section 4945(d)(4) the term "taxable expenditure" includes any amount paid or incurred by a private foundation as a grant to an organization (other than an organization described in section 509(a)(1), (a)(2), or (a)(3) (other than an organization described in section 4942(g)(4)(A)(i) or (ii)) or in section 4940(d)(2)), unless the private foundation exercises expenditure responsibility with respect to such grant in accordance with section 4945(h). However, the granting foundation does not have to exercise expenditure responsibility with respect to amounts granted to organizations described in section 4945(f).

* * * * *

(5) Certain foreign organizations--(i) In general. If a private foundation makes a grant to a foreign organization, which does not have a ruling or determination letter that it is an organization described in section 509(a)(1), (a)(2), or (a)(3) or in section 4940(d)(2), the grant will nonetheless be treated as a grant made to an organization described in section 509(a)(1), (a)(2), or (a)(3) (other than an organization described in section 4942(g)(4)(A)(i) or (ii)) or in section 4940(d)(2) if the grantor private foundation has made a good faith determination that the grantee organization is an organization described in section 509(a)(1), (a)(2), or (a)(3) (other than an organization described in section 4942(g)(4)(A)(i) or (ii)) or in section 4940(d)(2). A determination ordinarily will be considered a good faith determination if the determination is based on current written advice received from a qualified tax practitioner concluding that the grantee is an organization described in section 509(a)(1), (a)(2), or (a)(3) (other than an organization described in section 4942(g)(4)(A)(i) or (ii)) or in section 4940(d)(2), and if the foundation reasonably relied in good faith on the written advice in accordance with the requirements of §1.6664-4(c)(1) of this chapter. The written advice must set forth sufficient facts concerning the operations and support of the grantee organization for the Internal Revenue Service to determine that the grantee organization would be likely to qualify as an organization described in section 509(a)(1), (a)(2), or (a)(3) (other than an organization described in section 4942(g)(4)(A)(i) or (ii)) or in section 4940(d)(2) as of the date of the written advice. For purposes of these rules, except as provided in the next sentence, written advice will be considered current if, as of the date of the grant payment, the relevant law on which the advice is based has not changed since the date of the written advice and the factual information on which the advice is based is from the

grantee's current or prior taxable year (or annual accounting period if the grantee does not have a taxable year for United States federal tax purposes). Written advice that a grantee met the public support test under section 170(b)(1)(A)(vi) or section 509(a)(2) for a test period of five years will be treated as current for purposes of grant payments to the grantee during the two taxable years (or, as applicable, annual accounting periods) of the grantee immediately following the end of the five-year test period. See paragraphs (b)(5) and (6) of this section for additional rules relating to foreign organizations.

(ii) Definitions. For purposes of this paragraph (a)(5)--

(a) The term "foreign organization" means any organization that is not described in section 170(c)(2)(A).

(b) The term "qualified tax practitioner" means an attorney, a certified public accountant, or an enrolled agent, within the meaning of 31 CFR 10.2 and 10.3, who is subject to the requirements in 31 CFR part 10.

(6) * * *

(ii) To governmental agencies. If a private foundation makes a grant to an organization described in section 170(c)(1) and such grant is earmarked for use by another organization, the granting foundation need not exercise expenditure responsibility with respect to such grant if the section 170(c)(1) organization satisfies the Commissioner in advance that:

(a) Its grantmaking program is in furtherance of a purpose described in section 170(c)(2)(B), and

(b) The section 170(c)(1) organization exercises "expenditure responsibility" in a manner that would satisfy this section if it applied to such section 170(c)(1) organization. However, with respect to such grant, the granting foundation must make the reports required by section 4945(h)(3) and paragraph (d) of this section, unless such grant is earmarked for use by an organization described in section 509(a)(1), (a)(2), or (a)(3) (other than an organization described in section 4942(g)(4)(A)(i) or (ii)), or in section 4940(d)(2).

(b) * * *

(5) Certain grants to foreign organizations. With respect to a grant to a foreign organization (other than an organization described in section 509(a)(1), (a)(2), or (a)(3) (other than an organization described in section 4942(g)(4)(A)(i) or (ii)) or in section 4940(d)(2) or treated as so described pursuant to paragraph (a)(4) or (5) of this section), paragraph (b)(3)(iv) or (b)(4)(iv) of this section shall be deemed satisfied if the agreement referred to in paragraph (b)(3) or (4) of this section imposes restrictions on the use of the grant substantially equivalent to the limitations imposed on a domestic private foundation under section 4945(d). Such restrictions may be phrased in appropriate terms under foreign law or custom and ordinarily will be considered sufficient if an affidavit or opinion of counsel (of the grantor or grantee) or written advice of a qualified tax practitioner is obtained stating that, under foreign law or custom, the agreement imposes restrictions on the use of the grant substantially equivalent to the restrictions imposed on a domestic private foundation under paragraph (b)(3) or (4) of this section.

* * * * *

(f) * * *

(3) Effective/applicability date of paragraphs (a)(1), (a)(5), (a)(6)(ii), and (b)(5) and transition relief. Paragraphs (a)(1), (a)(5), (a)(6)(ii), and (b)(5) of this section are effective on and apply with respect to grants paid after **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]**. However, foundations may continue to rely on paragraph (a)(5) as contained in 26 CFR part 53, revised April 1, 2015, with respect to grants paid on or before **[INSERT DATE 90 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]** pursuant to a good faith determination made in accordance with such provisions. Also, foundations may continue to rely on paragraph (a)(5) as contained in 26 CFR part 53, revised April 1, 2015, with respect to grants paid pursuant to a written commitment made on or before **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]** and pursuant to a good faith determination made on or before such date in accordance with such provisions if the committed amount is paid out within five years of such date.

John M. Dalrymple,

Deputy Commissioner for Services and Enforcement.

Approved: September 16, 2015.

Mark J. Mazur,

Assistant Secretary of the Treasury (Tax Policy).

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